Artificial Intelligence: Transforming Qualitative Risk Management

The sheer velocity of expansion of technology in the last two decades has been a game changer in the way business is conducted by banks and financial institutions dramatically.

Regulatory guidelines are being constantly changed to accommodate the swift pace of technological evolution. Adhering to time sensitivity in business practices requires a paradigm shift from manual to automatic.

How would AI help BFSI firms?

- Timely regulatory compliance without manual supervision
- Aid in business growth by strengthening internal risk frameworks
- Manage & Mitigate qualitative risks through advanced analytics
- Reduce involvement of Central Agencies in risk processes
- Helps Risk officers make sound decisions based on AI generated data
- Help overcome risk integration challenges through appropriate & accurate risk assessments

Key Problem Areas faced by BFSI

- Since the discontinuation of the **Advanced Measurement Approach (AMA)** framework presented by the Basel Committee for strengthening banks internal models for risk measurement, CXOs are looking for AI measures that can support a healthy transfer from the older approach to a potential newer framework

- Banks have perpetually struggled with manually analysing risk & the strategies designed around the particular risk. Highly advanced analytics can integrate and align both based on past and future risk trend analytics

- The scope of risk has risen ten-fold in the recent years and to segregate them into specific frameworks such as third-party risk, fraud risk, regulatory compliance, cyber malware, operational resiliency and so on, is a tedious challenge for BFSIs to be in step with risk transformation and constantly develop mitigation solutions

- The rapid pace of technology, innovation and changing business practices makes it incumbent on BFSIs to allow integration through Smart

AI Integration within BFSI Ecosystem

Strategic Data Procurement & Management

Complexity in businesses arise when there is substantial branching out of processes, departments and alliances. To obtain optimized, automated strategic dossier, amalgamation of internal data from all verticals like finance, operations, IT & HR with external data procured from third party coalitions, must be fabricated into a standardized format that also identifies similarities in the classification algorithms.

AI Data Consortium

Banks are collecting significant amount of structured and unstructured data on daily basis. However, the unstructured data is still not used to its full potential by banks. In order to unlock the true power of data, especially unstructured data, it is very important to adopt AI based approach which can help banks in classifying and converting data into appropriate format. Even the external data can be captured with APIs and classified & converted into meaningful data. Bank can integrate all data, internal as well as external, into a common risk data lake and leverage the same in taking right decisions.

Accelerating Time through Automation

To convert unstructured risk data into a definitive, derivative and predictive data with minimal manual interference, AI utilizes the following approach;

Any significant parameter alteration will trigger Risk Assessment Analysis

AI interface will identify emerging risk and prioritize it with internal frameworks

Unify & align business goals, strategies & risk appetite

Align business processes & controls with risks to reimagine risk strategies & levels

Risk Trend Analysis Automation

Performing risk impact assessments.

Chief Risk Officer Responsibilities

A Chief Risk Officer has additional mandates over and above the illustrated responsibilities as well;

- Expedite revenue cycles through swift risk approvals of new and large transactions
- Provide rationalized risk training requirements as per the firm's risk capabilities
- Transparency in alignment of business process to risks, issues & measures, to reduce multiple predictions & advices that distort a stable unilateral decision
- Quality checks of risk controls to assure corrective actions
- Ensure acceptable levels of risk while minimizing bureaucracy.

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Concluding the AI Approach

Senior Management at banks especially risk managers need real-time or at least near-real-time method of correlating expected exposures to enterprise risks' as well as determine impact of these exposures to present and future business strategies. The institutions which enable AI based analysis within their key data lakes have a chance to be one-step ahead w.r.t Risk identification and mitigation thereby excelling over competition. AI in this advanced era of digital technologies is a tool which if used rightly can benefit the BFSI ecosystem to better utilise Risk capital and proactively monitor portfolio behaviour and varied business exposures.